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TAGS: EAGR ECON ENRG EPET AR
SUBJECT: ARGENTINA BOOSTS EXPORT TAXES ON MAJOR AG COMMODITIES, SECTOR RESPONDS WITH STRIKE

Summary

¶1. (SBU) Economy Minister Lousteau on March 12 announced a modification of Argentina's agricultural export tax regime under which taxes on soy and sunflower exports were substantially increased, taxes on wheat and corn nominally lowered, and all four will move for the next four years will move in tandem with international commodity prices. The GoA's goal is to raise up to US$ 1 billion in additional revenue, prevent the pass-through of higher global commodity prices to domestic food prices. The overall effect will be to reduce the incentive for producers to expand soybean acreage, incent increase production of grain crops, and lower overall agricultural sector profitability. While the GoA's goal of boosting its primary fiscal surplus is laudable, this particular revenue raising mechanism risks discouraging the allocation of economic resources to Argentina's efficient and competitive agricultural sector. It also raises GoA fiscal account exposure to the international commodities cycle. In protest over expanding GoA intervention in the sector, Argentina's four predominant agricultural entities are supporting a two-day strike by the sector. END SUMMARY.

ARGENTINA IMPLEMENTS SLIDING EXPORT TAXES

¶2. (U) On March 11 the GOA closed export registrations for all major grains and oilseeds for a period of two days (later extended to three days), indicating an imminent increase in export taxes for those products. The following day, Wednesday, March 12, Economy Minister Lousteau announced a change in the regime of taxes on agricultural exports and their derivatives. For at least the next four years, agricultural export taxes will move in tandem with commodity prices with the export tax regime modified to implement a sliding tax, based on FOB prices for soybeans, sunflowerseed, wheat, and corn. At current prices, the applied tax on soybeans increased from 35 to 44.1 percent, while the tax on sunflowerseed rose from 32 to 39 percent. Corn and wheat taxes were slightly reduced as a result of the action to 24.2 percent (from 25) and 27.1 percent (from 28), respectively. Additionally, the Minister of Economy indicated that part of the revenue will be used to subsidize other agricultural sectors, such as meats, dairy, and to encourage

increased use of fertilizers.

DIFFERENTIAL EXPORT TAXES CONTINUE

¶3. (U) In addition to changing the export taxes on primary products, the GOA slightly modified the differential export taxes applied to derivative products. Differential taxes continue to provide incentives for processing primary products domestically. For example, the differential between the export tax on soybeans and soybean oil increased from 3 to 4 percent (which is a slight benefit to soybean crushers), while the differential between soybeans and soybean meal remains at 3 percent. The differential tax between wheat and wheat flour was reduced to 10 percent, from the previous 20, narrowing millers' margins. The GOA also reduced the margins for biodiesel producers, since the differential between the tax on soybean oil and biodiesel was reduced from 29.5 percent to around 22.5 percent (at current prices, the soybean oil export tax is 40 percent while the biodiesel fixed tax was increased to 20 percent). However, producing biodiesel should still be highly profitable (at least for now), although the profit margins will decrease further if soybean oil prices fall. The following table shows the new differential taxes applied to major derived products.

INCREASED REVENUE FOR FISCAL SURPLUS

¶4. (U) Argentina relies heavily on revenue generated through export taxes to generate a fiscal surplus. With the latest change to their export tax regime on agricultural commodities, the GOA hopes to collect an additional 0.4% of GDP in federal revenues (roughly US$ 1 billion based on a 2007 GDP of US$ 250 billion). Analysts estimate that this year, given current commodity prices, Argentina's fiscal

surplus could reach up to 4 percent of GDP -- an equivalent of 40 billion pesos (US$12.7 billion).

CHANGING INCENTIVES

¶5. (U) The GOA justifies its use of export taxes on agricultural products to: 1) to generate federal tax revenues (that, unlike other federal taxes, are not shared with provinces); and 2) to put downward pressure on domestic food prices by limiting exports. As soybean consumption in Argentina is very low and its market is dependent upon exports, the GoA export tax regime is extracting a disproportionate share of revenue from the industry. In addition, as soybean production in recent years has grown more rapidly than wheat and corn, the GOA has attempted to increase the incentives for farmers to opt for producing the latter grain crops, thereby relieving price pressure on domestic food products.

¶6. (U) The strong increase in export taxes applied to major oilseeds crops, combined with the insignificant decrease for grains crops, alters producer incentives. Producers will be forced to re-evaluate the profitability of continually expanding soybean acreage, and have incentives to increase production of grains crops.

¶7. (U) The overall effect of increased export taxes has been a reduction in profitability for producers. Approximately 60-70 percent of commodity farming activity in Argentina is done on rented land, and a significant proportion of that is carried out by farming pools. Those business models that must pay for rental of land and/or dividends to investors/members will be most negatively affected by the recent tax increases. Additionally, producers farther from ports who face higher internal transport costs, as well as producers in more marginal areas with lower yields, and, more generally, small to medium-size producers who do not have the flexibility of larger producers, are also most negatively affected.

AGRICULTURAL SECTOR ON STRIKE

¶8. (SBU) In protest over expanding GoA interventions, Argentina's four major agricultural producer entities (Sociedad Rural, CRA, Coninagro and FAA) are supporting a two-day strike by the sector, during which no commodities will be sold (some are calling for a larger strike). This marks the first massive protest of the entire agricultural sector against the Christina Kirchner administration in hopes of changing the agricultural political landscape. Post contacts echo the growing frustration of the entire agricultural sector. Concern over decreased profitability, negative effects on production, and anger surrounding a government policy to tax the agricultural sector to subsidize other sectors of the economy are the predominant complaints. In addition, traders indicate that the futures market will be affected as the new system de-links producer price increases with rising world prices.

A HISTORY OF TAXING EXPORTS

¶9. (SBU) Argentina has a history of imposing taxes on commodity exports. They previously reached their highest mark in the late 1980s, during Raul Alfonsin's government, when agricultural export taxes were set between 40-45%. Although export taxes were abolished during the Menem administration, they were resurrected in early 2002 as the transition Duhalde administration sought to raise additional federal revenues. The latest changes to the export tax regime follow a recent period of increased government manipulation of export policy. In early 2007, the GOA had increased export taxes on soybeans from 23.5 to 27.5 percent and soybean meal and oil from 20 to 24 percent. Combined with closure of the export registration process for numerous commodities, taxes were again raised in early November 2007, putting the tax for soybeans at 35 percent, wheat at 28 percent, and corn at 25 percent.

Comment

¶10. (SBU) The March 12 policy announcement represents the second time the GoA has raised taxes on agricultural exports since November 2007, substantially increasing the tax burden on the farming sector. The GoA's interest in tapping the global commodity boom to fund federal coffers is straightforward and mirrors efforts by other primary commodity exporting nation governments worldwide. While the GoA's goal of boosting its primary fiscal surplus is laudable, this particular revenue raising mechanism raises medium term warning flags: First, this higher sector-specific tax burden discourages the allocation of economic resources to the agricultural sector, arguably Argentina's most efficient and competitive sector, in favor of other less competitive sectors of the economy. Secondly, the boost in agricultural export taxes raises GoA fiscal account exposure to the international commodities cycle, particularly as some of the additional revenue raised is to be used to fund current spending on domestic subsidies. If and when commodity prices decline, the GoA runs the risk of an abrupt fiscal adjustment and a deterioration in its debt dynamics, both with important implications for Argentina's ability to sustain economic growth.

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